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RUCPDOC/DEPT OF COMMERCE WASHDC

RHEBAAA/DEPT OF ENERGY WASHDC

RUEATRS/DEPT OF TREASURY WASHDC

RULSDMK/DEPT OF TRANSPORTATION WASHDC

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UNCLAS SECTION 01 OF 04 NEW DELHI 002277

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SENSITIVE

STATE FOR SCA/INS AND EEB

USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD

DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR

DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY

DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT

TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN

USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER

EEB/CIP DAS GROSS, FSAAED, MSELINGER

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF AUGUST 18 TO AUGUST 22, 2008

REF: NEW DELHI 2081

**¶1.** (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of August 18 to August 22, 2008, including the following:

-- FINANCE MINISTRY ON LEGISLATION, FARM WAIVER PROGRAM  
-- INVESTMENT STILL GOING STRONG  
-- CABINET APPROVES HIGHER SALARIES FOR GOVERNMENT EMPLOYEES  
-- NEW INVESTMENT NORMS OF PRIVATE PROVIDENT FUNDS  
-- DELHI INTERNATIONAL AIRPORT OPENS THIRD RUNWAY  
-- KARNATAKA'S DRAFT INDUSTRIAL POLICY  
-- KARNATAKA WANTS TO REOPEN OLD BANGALORE AIRPORT

FINANCE MINISTRY ON LEGISLATION, FARM WAIVER PROGRAM

**¶12.** (SBU) Econ and Treasury met on August 21 with Ministry of Finance Joint Secretary (Banking Operations) Amitabh Verma and discussed pending financial legislation and the farm waiver program. First, Verma noted that his office has been busy putting the final touches to the pending financial bills in Parliament (see reftel) to ensure that the bills could be quickly passed, if the UPA coalition decides to move on them. From his perspective, the bills' passage was possible from a process point of view provided the Parliamentary session convenes for at least a week. What Verma saw as the deciding factor is consistent with earlier assessments: whether the UPA wanted to risk testing its new coalition partners by putting the bills up to vote. The Joint Secretary observed that the ruling coalition's slim majority combined with the BJP's public stance that it will oppose legislation means that any legislative vote acts essentially as another trust vote for the government that it will be wary to push.

**¶13.** (SBU) On the post-2009 Banking Roadmap, Verma asserted the government was ready to open more of the sector to foreign banks. However, the next few months would be difficult ones in which to begin such a review. He noted that RBI Governor YV Reddy ends his tenure on September 6 and the new governor would need some time in the position before being able to fully engage on the roadmap. While internal work may begin this Fall, the GOI would likely postpone decisions on the roadmap until after upcoming national

elections.

¶ 14. (SBU) Emboffs next asked Verma about the status of the farm debt waiver program, which Verma oversees in consultation with the Reserve Bank of India. Verma confirmed that all the eligible small and marginal farmers had received an official waiver certificate, which doubles as eligibility for fresh agricultural loans. Next, banks must apply for reimbursement, which they would receive in three annual tranches from the government. Most farmers received the waiver in time to borrow for the summer planting season, although Verma noted that, year to date, overall agricultural lending was lower this year than last. On the cost of the program, last estimated at Rs 72,000 crore (roughly \$17 billion), Verma assessed that the maximum cost (still to be spread over three years) would come in at Rs 67,000 crore (\$16 billion), of which Rs 12,000 crore (\$2.9 billion) goes to big farmers. Big farmers would only get the government payment if the farmer first paid 75 percent of his defaulted loan. Verma thought it unlikely that many big farmers would avail of this offer, and so estimated the total cost of the farm waiver program to be around Rs 54,000 crore (\$12.9 billion), to be paid out to the banks over three years.

¶ 15. (SBU) Verma identified one bill that the government would need to pass at the Monsoon Session - a supplementary funding bill that often gets passed in this session. The supplementary "grants" bill would, among other things, allocate Rs 25,000 crore (\$6 billion) for this fiscal year's contribution to the waiver cost. (Note: press reports have also identified the need for the supplementary grants bill to cover the Pay Commission government salary hikes, a pre-election deliverable the government will want to ensure. End note.)

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#### INVESTMENT STILL GOING STRONG

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¶ 16. (U) Both foreign and direct investment seem unaffected so far by the slowdown in Indian and global economic growth. Foreign direct investment (FDI) into India during the first quarter of the fiscal year, April to June, exceeded \$10 billion, higher than last year during the same period, and \$1 billion more than all of fiscal year 2005-06. FDI is strongly on course to meet the government's full-year target of \$35 billion. In addition, domestic companies' investment plans appear unhindered by signs of slowing elsewhere. The Center for Monitoring the Indian Economy (CMIE) stated that it had tracked \$118 billion worth of new investment plans during April to June. That's a monthly average of \$39 billion, compared to a monthly average of \$33 billion during the last fiscal year.

#### CABINET APPROVES HIGHER SALARIES FOR GOVERNMENT EMPLOYEES

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¶ 17. (SBU) The Indian Cabinet, in time for an Independence Day announcement, approved on August 14 most of the recommendations of the Sixth Pay Commission for raising the wages of the central government's five million employees, retrospective from January 1, 2006. Employees of the central government, including defense and the railways, will get an average salary raise of 21 percent (varying between 28-40 percent of their existing pay), above what the Pay Commission had recommended in March. Employees will get hiked salaries from September 2008, once the government authorizes the payments in its supplemental grants bill to Parliament during the Monsoon Session. Arrears amounting to \$7 billion (Rs 294 billion) would be paid in two installments - 40 percent would be paid by September 2008 and the balance next year. Expenditure Secretary Sushma Nath said that higher salaries (after modifications made by the Cabinet) would cost the treasury \$4.2 billion (Rs 178 billion) on an annual basis, about 42 percent more than the hike suggested by the Panel earlier in March. Including arrears, the total spending would total amount to \$10 billion (Rs 428 billion) over two years.

¶ 18. (SBU) The Prime Minister's Advisory Council has sounded concern, saying the increased wage bill will push up the fiscal deficit. However, Finance Minister Chidambaram clarified by saying that the

impact of the Pay Commission had been taken into account when the government cleared the recommendations and had been factored into the budget (Note: However, the March budget papers did not include a line item for the Pay Commission salary increases. End note.) Analysts opine that the arrears pay-out and incremental salaries will raise the disposable incomes of the consumers, particularly at the lower spectrum and this would translate into higher consumer spending on goods, durables, cars and traveling. Some observers feel the increase will not make a great impact on inflation as inflation is a supply side problem. Comment: The impact of the pay-out of the Sixth Commission on the government's finances is projected to be milder than it was during the Fifth Pay Commission, although it is likely to add 0.5-0.6 percent to the central government's deficit to GDP figure. End Comment.

#### NEW INVESTMENT NORMS OF PRIVATE PROVIDENT FUNDS

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**¶9.** (SBU) The Finance Ministry issued a notification on August 14, relaxing the investment pattern rules for non-government provident funds, superannuation and gratuity funds, which together total around \$119 billion, in order to give these funds more freedom to manage their portfolio. The new guidelines, which will come into force from April 2009, increase the limit on investment in equities by these privately managed funds to 15 percent of their corpus from the earlier 5 percent, as long as they are in shares of companies with derivatives on the Bombay Stock Exchange or National Stock Exchange or equity linked schemes of mutual funds. Funds will also be permitted to invest in new categories of investments, including debt securities, term deposits issued by the commercial banks and in

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rupee bonds issued by multilateral agencies for infrastructure projects.

#### DELHI INTERNATIONAL AIRPORT OPENS THIRD RUNWAY

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**¶10.** (U) New Delhi's international airport, Indira Gandhi International Airport, opened its third runway for trial runs this week. At 2.75 miles long, it is one of Asia's longest runways, and will be able to accommodate large passenger aircraft such as the Airbus 380. Civil Aviation Minister Praful Patel inaugurated the runway, stating that it would be open to commercial operations by next month. The runway is equipped with the CAT IIIB Instrument Landing System at both ends, which permits landing with visibility as low as 50 meters - a common frequency in Delhi's fog-laden winter months. The new runway, part of the ongoing modernization of the international and domestic airports, was completed six months ahead of the schedule.

#### KARNATAKA'S DRAFT INDUSTRIAL POLICY

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**¶11.** (U) Karnataka's new government has floated its draft industrial policy on the web. The state's Minister for Heavy and Medium Industry told Consulate General Chennai that his department seeks suggestions from the public to help fine-tune the policy. The draft policy proposes changes to the state's land acquisition policy in the hopes of reducing local opposition to large scale industrial projects. Under the existing policy the government of Karnataka acquires 100 percent of the land required to establish a manufacturing facility. The draft policy reduces government's role in land acquisition. It limits government acquisition to only 30 percent of the total land required, leaving the investor responsible for purchasing the remaining 70 percent directly from the owners. Moreover, the government will require that the land it acquires be used only for the stated industrial purpose to help prevent diversion into real estate development projects.

#### KARNATAKA WANTS TO REOPEN OLD BANGALORE AIRPORT

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**¶12.** (SBU) Senior Karnataka officials told Consulate General Chennai that they plan to review the state's agreement with Bangalore

International Airport Limited (BIAL) in the hopes of reopening the recently closed, more centrally-located HAL Airport. The new airport, which opened in May, has been the subject of much dissatisfaction, primarily with the long drive time to the airport from many of Bangalore's business districts. Bangalore's notoriously bad traffic means that it can take up to two hours to cover the 40 kilometers from the airport to the city center.

¶13. (SBU) The state's Information and Biotechnology Minister, whose portfolio also includes developing Bangalore, told Consulate General Chennai that BIAL had not lived up to the commitments it made in its Memorandum of Understanding with the state. Citing one example of BIAL's failure to perform, the Minister said the airport does not have the number of luggage carousels stipulated in the agreement. He also claimed that with the expected increase in traffic through Bangalore the new airport will hit its maximum capacity by mid-2009, but that the second phase will not come on line until 2011. The Minister believes that the state can renegotiate the deal with BIAL to allow the old HAL airport to meet the interim excess demand.

¶14. (SBU) The state's Chief Minister echoed the Information and Biotechnology Minister's views. Chief Minister Yeddyurappa said that the new airport's "facilities are not up to international standards." He also noted that "every major city in the world has two airports," so his government has asked the central government to consider keeping HAL airport open.

¶15. (U) Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>

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